

THE FORMATION OF THE BALTIC CLAUSE. A FINNISH INITIATIVE?

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The Baltic Clause was a special arrangement in Baltic trade policy during the interwar period. By adding the clause to their trade treaties, the Baltic states aimed to secure the special customs privileges they had granted or would grant to each other. In the long term, at least in the cases of Estonia and Latvia, the aim was to extend this principle towards a customs union.

The underlying reasons for such measures were, of course, economic. Just a few years earlier the small countries abutting the eastern shores of the Baltic Sea had been part of the same colossal economy. By creating a system of regional preferences, the newly independent countries were actually trying to simulate and compensate for the old system. Re-aligning the economy was a central part of the transition process that took place during the first years of Baltic independence. The plans also had a political dimension and were connected to Baltic cooperation and later the Baltic Entente.

The history of the Baltic Clause has been written mostly from the Estonian and Latvian viewpoints. This is understandable because at the beginning of the 1930s the clause became an official part of Estonian and Latvian foreign trade policies. In my paper I will show that, for Finland, the Baltic Clause was originally not so much a door to a customs union as a means of gaining similar advantages without the political burden of such a union. However, due to the lack of economic connections Finland chose not to use the Baltic Clause in her trade treaties.

The paper is mostly based on archival materials from the Estonian National Archives and the archives of the Ministry for Foreign Affairs of Finland. The author is preparing a doctoral thesis on Finno-Estonian economic relations during the interwar period.

INTRODUCTION

The Baltic Clause¹ was a special arrangement in Baltic trade policy during the interwar period. By adding the clause to their trade treaties, the Baltic states and Finland aimed to secure the special customs privileges they had granted or would grant to each other. Estonia and Latvia were especially active in using the clause and, in the long run, their aim was to extend this principle into a customs union. In my paper, I will show that Finland held a much more central position in the creation of the Baltic Clause than has been hitherto recognised. The genesis of the

¹ A clause is a provision in an agreement that defines an exception to a rule.

clause was not a result of a determined policy between the border states.² It was created through political interaction in which many countries and actors within these countries were involved. Finland had an active role at the beginning of this process but for some reason stepped back. Plans of taking the Baltic Clause as the basis of Finnish trade policy were abandoned by the spring of 1923.

The First World War was a central turning point for the Baltic and Finnish economies. While Finland had already sold a good deal of goods to the western markets before the war, the newly independent Baltic countries had to reorganise their foreign trade almost completely. The most important trading partners were the United Kingdom and Germany, and here the Baltic countries and Finland were competitors. The trade between the Baltic states and Finland remained small throughout the interwar period, although a lot of effort was invested to improve the situation.³ One of these efforts was the Baltic Clause. The idea of such a clause was to limit the scope of commercial treaties based on the most favoured nation principle, which was included in most European treaties after the war.⁴ Regional trade arrangements such as the Baltic Clause, reflecting real or desired economic and political ties, were not unique in international trade. The “Iberian Clause” and “Cuban Clause” existed already before the war and similar clauses were established also in Scandinavia and South-America.⁵ However, it seems that for the Finns, the Baltic Clause was not a matter of unity.

The history of the Baltic Clause has been written mostly from Estonian and Latvian viewpoints and, in most cases, the clause has not been the actual focus of research. The Baltic Clause is mentioned especially in studies concerning Estonian and Latvian economic cooperation. Finland has been seen more as a passive or associate member of the Baltic Clause. This is understandable because in July 1930, the clause became an official part of Baltic foreign trade policies and it was

² When talking about the conferences and political cooperation between Finland, Estonia, Latvia, Lithuania and Poland in this article, I will mainly use the term “Baltic cooperation”. When referring to this group of countries I will use the term “border states” realising that in some connections it had a wider meaning as well. The term “Baltic states” I use in the modern more narrow sense, meaning only Estonia, Latvia and Lithuania. More about the terminology of this topic see **Lehti, M.** A Baltic League as a Construct of the New Europe. Envisioning a Baltic Region and Small State Sovereignty in the Aftermath of the First World War. Peter Lang, Frankfurt am Main, 1999, 13–14.

³ Both the values of imports and exports between the Baltic countries and Finland were only around 1–2 per cent of Finland’s total foreign trade. Finland’s share in Estonian foreign trade was much higher, 3–9 per cent in exports and 2–5 per cent in total imports. **Pihkala, E.** Der Baltische Handel Finnlands 1835–1944. – *Jahrbücher für Geschichte Osteuropas*, 1975, **23**, 24; **Pihlamägi, M.** Eesti kaubad põhjanaaber Soome turul 1920. ja 1930. aastatel. – *Acta Historica Tallinnensia*, 2000, **4**, 76.

⁴ By including the most favoured nation clause in a trade treaty, the signatories agree to grant each other the same benefits that are offered in trade treaties with other countries. If countries A and B have a trade treaty based on the principle, all the benefits A gives to C are transferred to country B as well. However, if countries B and C do not have a treaty including the principle, all the benefits C gives to A are not transferred to country B.

⁵ **Viner, J.** The Customs Union Issue. Carnegie Endowment for International Peace, New York, 1950, 18–19; **Kalela, J.** Grannar på skilda vägar. Det finländsk-svenska samarbetet i den finländska och svenska utrikespolitiken 1921–1923. Söderström & C:o Förlags Ab, Borgå, 1971, 231.

also discussed at the conferences held between the three members of the Baltic Entente during the decade.⁶ Latvia and Estonia were also the two countries that undertook the most far-reaching economic cooperation, although this did not lead to expected results.⁷

Researchers have noted that it was Finland of all countries that for the first time applied the Baltic Clause in her trade treaties. Marko Lehti and Eero Medijainen see the prototype of the clause in the Finno-French agreement that was signed in July 1921. In the treaty, the French agreed to make an exception to the most favoured nation clause in the case of Estonia.⁸ Of course, the term “Baltic Clause” did not exist at that time and the Finns usually talked about an “Estonian exception”.⁹ Maie Pihlamägi finds the first trace of the clause elsewhere. In her opinion, the 1921 trade treaty between Finland and Estonia was the first treaty in which the idea of the clause can be seen. In this treaty, the Finns and the Estonians specifically agreed not to extend the special privileges they had granted

⁶ See for example **Salnais, V.** Economic treaties as foundations of solidarity and peace among nations. – Baltijas Unija, 1934, 2, 2, 7–10; **Kaasik, N.** The Baltic Clause in treaties of commerce. – The Baltic Countries. A Survey of the Peoples and States of the Baltic with Special Regard to their History, Geography and Economics, 1935, 2, 177–180; **Kuldkepp, M.** Märkmeid Eesti–Läti majanduslikest suhetest. Pulmaunelmatest lahutusmõteteni. ERK: Üld-, Majandus- ja Kultuuripoliitiline Ajakiri, 1937, 7/8, 189; **Royal Institute of International Affairs.** The Baltic States: A Survey of the Political and Economic Structure and the Foreign Relations of Estonia, Latvia, and Lithuania. Oxford University Press, London, 1938, 127–128; **Vendt, A.** Estnische Handelspolitik. Die geschichtlichen und wirtschaftlichen Grundlagen ihrer Entwicklung. University of Cologne, 1938, 119; **Ekis, L.** Latvia. Economic Resources and Capacities. The Press Bureau of The Latvian Legation, Washington, D.C., 1943, 47; **Koik, H.** Eesti–Soome kaubalepingu revideerimine 1930.–1931. a. – In: Uurimusi Läänemeremaade ajaloost, I. Eds S. Vahtre, H. Ligi, H. Siilivask, H. Piirimäe. (Tartu Riikliku Ülikooli toimetised, 316). Tartu, 1973, 353; **Hiden, J.** The Baltic States and Weimar Ostpolitik. Cambridge University Press, Cambridge, 1987, 109–110; **Medijainen, E.** Eesti välispoliitika Balti suund 1926–1934. TÜ ajaloo- ja rahvastikuteaduse labor, Tartu, 1991, 44–45; **Hiden, J., Salmon, P.** The Baltic Nations and Europe: Estonia, Latvia and Lithuania in the Twentieth Century. Rev. ed. Longman Publishing, New York, 1994, 86; **Lehti, M.** A Baltic League as a Construct of the New Europe, 368–369; **Pihlamägi, M.** Väikeriik maailmaturul: Eesti väliskaubandus 1918–1940. Argo, Tallinn, 2004, 88, 97.

⁷ **Medijainen, E.** Eesti välispoliitika Balti suund, 45–71. The long-lasting negotiations for a customs union between the two countries failed and ended by the late 1930s.

⁸ **Lehti, M.** A Baltic League as a Construct of the New Europe, 368–369; **Medijainen, E.** Eesti välispoliitika Balti suund, 44.

⁹ “Baltische Klausel” is mentioned for the first time in a Finnish foreign ministry document, while discussing the trade negotiations with Latvia in June 1924. In addition, while writing about the signing of the Finno-Latvian trade treaty in August 1924, the Finnish newspaper *Kauppalehti* uses the term “Baltic Sea Clause”, “Itämeren klausuli”, which suggests a wider meaning even for a modern reader. The term “Baltic Clause”, “Baltian klausuuli” or “balttilainen klausuuli”, usually referred to the clauses in the Estonian, Latvian and Lithuanian trade treaties in Finnish documents. The Finns usually did not use the word “Baltic Clause” to describe the reservations in their own treaties, which of course speaks volumes about the political content of the term. The Finnish Ministry for Foreign Affairs to the Finnish Embassy in Riga, 7 June 1924. The archives of the Ministry for Foreign Affairs of Finland (UMA), 58B1, box 46; Uusin kauppa- ja merenkulkusopimuksemme. – Kauppalehti, 25.8.1924.

each other to third countries, thus explicitly stating that the content of the treaty was outside the most favoured nation principle. Pihlamägi adds that the Baltic Clause was used in a wider sense for the first time in the Estonian-French agreement of 1922, in which Estonia reserved special rights for Finland and Latvia.¹⁰ These views are shared by Nikolai Kaasik, an Estonian government official, who wrote a short article about the Baltic Clause in 1935.¹¹

There were also differences in the views of contemporaries. Kaarel Robert Pusta, for example, wrote in 1942 that “such a disposition of regional preference was inserted in the Estonian-Latvian Economic Convention of 1923 and extended to Lithuania in 1924”.¹² Furthermore, according to a memorandum written in the Ministry for Foreign Affairs of Estonia in December 1937, the first time the actual Baltic Clause was applied to a trade treaty was in October 1922 in the agreement between Latvia and Czechoslovakia.¹³ Basically, these slight differences of opinion originate from the different definitions of the clause. As noted by Eero Medijainen, some of the contemporaries even understood that the ‘real’ Baltic Clause included all the Baltic states together with Finland and Soviet Russia.¹⁴ Finland also used a wider version of the clause, which included Estonia, Latvia and Lithuania, in a treaty with the United Kingdom signed in December 1923, but in other treaties only applied the exception regarding Estonia.¹⁵

This all implies that the creation of this special reservation was a lengthy and evolutionary process rather than a systemically implemented outcome of a fully developed plan, and the content of the clause varied over time. It also suggests that little has been said about the origins of the clause. Previous research has correctly identified the first occurrence of the idea, but has not explained the circumstances that produced it. In general it can be said that the Baltic Clause has been seen as a product of Baltic cooperation. According to Marko Lehti, the inclusion of the clause in trade treaties was one of the most important results of economic cooperation between the border states in the early 1920s. Lehti adds that the clause kept a door open for Baltic economic integration, and connects the use of the clause to the wider framework of this versatile cooperation.¹⁶ Moreover,

¹⁰ **Pihlamägi, M.** Väikeriik maailmaturul, 88; Commercial convention between Estonia and France. Signed at Paris, January 7, 1922, League of Nations Treaty Series, 1927.

¹¹ **Kaasik, N.** The Baltic Clause in treaties of commerce, 177–178.

¹² **Pusta, K.** The Soviet Union and the Baltic States. John Felsberg, Inc., New York, 1943, 24.

¹³ Estonian memorandum concerning the Baltic Clause December 1937. National Archives of Estonia (ERA), 1579-1-77, 20.

¹⁴ **Medijainen, E.** Eesti välispoliitika Balti suund, 44. Soviet Russia, however, was usually discussed separately and, for example, the Latvians talked about a “Russian Clause” in their trade treaties.

¹⁵ **Kalela, J.** Grannar på skilda vägar, 248; **Kaasik, N.** The Baltic Clause in treaties of commerce, 179. It has to be noted that the full Baltic Clause did return to some Finnish trade treaties after the Great Depression, but this falls outside of the topic of the paper at hand.

¹⁶ **Lehti, M.** A Baltic League as a Construct of the New Europe, 368–369. The idea of the Baltic Clause being a path to a customs union is visible in earlier research as well. See for example **Hoetzsch, O.** The Baltic states, Germany and Russia. – Foreign Affairs, 1931, **10**, 1, 130–131; **Ekis, L.** Latvia. Economic Resources and Capacities, 47.

Eero Medijainen concludes that at the beginning of the 1920s, the clause was considered to be the economic precondition for Baltic cooperation.¹⁷ However, if this was the original plan, the design was rather poor because the clause was also applied to treaties between the Baltic states themselves. Thus, for example, Latvia was not enjoying the same benefits as Estonia had given to Finland, although the Latvians in turn made a reservation regarding the possible future benefits given to Finland. In order to have been acting as a path towards deeper economic cooperation, the Baltic Clause should have been applied only to trade agreements with countries outside the planned economic area.

The reasons behind Finland's abandonment of the wider version of the clause remain unclear as well. Finnish researchers have not commented on the question. Eero Medijainen, referring to the article written by Kaasik, states that Finland simply did not want to use the clause as the foundation of her foreign trade policy. Medijainen finds that the clause was distancing Finland from Scandinavia too much.¹⁸ This was probably the case in the long run, but it is difficult to see that the Scandinavian orientation played a role already in 1923, thus, reasons have to be found elsewhere.

In this paper, I wish to reconsider the Finnish role in the development of the Baltic Clause, and, in particular, to argue that it was more significant than has been recognised so far. This will also require the consideration of several other matters: What were the origins of the clause? Why did the prototype of the clause first emerge in the Finno-French and Finno-Estonian trade treaties in 1921? Why did the Finnish treaty with the United Kingdom include the wider clause and why was this policy not used in other treaties as well? Why were plans to take the Baltic Clause as the basis of the Finnish trade policy abandoned by the spring of 1923?

There are two sections. In the first section, I shed light on the background of the Baltic Clause from the Finnish point of view. In the second section, I show how the idea of the clause spread to Estonian trade policies as well, and consider the reasons why the Finns ended up using the full clause only in the trade treaty with the United Kingdom.

FINNISH GREED PLANTS THE SEED

Nikolai Kaasik wrote in 1935 that the “germ of the Baltic Clause” can be found from the Finno-Estonian trade treaty of 1921.¹⁹ However, the origins of this ‘germ’ are older, dating back to the beginning of Finno-Estonian economic relations following the Great War.

¹⁷ **Medijainen, E.** Eesti välispoliitika Balti suund, 44.

¹⁸ Samas, 44–45; **Kaasik, N.** The Baltic Clause in treaties of commerce, 179. Kaasik also claims that Finland was cautious and avoided committing itself to the economic community presupposed by the clause.

¹⁹ **Kaasik, N.** The Baltic Clause in treaties of commerce, 178.

Before the war, trade between Finland and the Baltic provinces was regulated according to a statute concerning Finno-Russian trade issued in 1897. Although Finland was part of Russia, it had a customs border with the mother country. Products originating from the Baltic provinces, just like any other part of Russia, were mostly duty-free²⁰, and such was also the case with most of Finnish products. Some Finnish goods, such as pulp, cellulose, paper, glass, leather and products of iron and textile industries were exported with reduced tariffs.²¹ Still, the share of Baltic provinces remained quite small in Finnish foreign trade, being 1–3 per cent of exports and 2–4 per cent of imports in 1910–1914.²² During the war, at least in the case of Estonia, these shares probably grew together with the share of the entire Russian trade.²³ The 1897 statute expired after both countries gained independence and started to regulate their trade with licenses.²⁴

In November 1918, the young Estonian nation found itself in war with Soviet Russia. Finland, in a state of war with Soviet Russia as well, helped Estonia with economic support and by sending voluntary troops. The unclear situation in Estonia resulted in a far-reaching political suggestion when Konstantin Päts put forward a plan of a union between Finland and Estonia.²⁵ This did not, however, create enthusiasm on the other side of the gulf, but the Finns soon started to evaluate the ways in which they could benefit from the situation.

The Finns were generally interested in Estonia as a market for their own industrial products. Besides the main exports, such as pulp, cellulose and paper, the Finns were hoping to sell the products of other industries as well, including glass, leather, iron, textiles and machinery, which they had exported previously to Russia. Estonia, in return, was seen as a source of agricultural produce and raw materials. The Finns were especially interested in potatoes, flax, scrap iron and the possibilities of oil shale. There were also plans to found banks and insurance companies in Estonia. Because the Finnish volunteers had “shed their own blood” while helping their kindred people, it was considered fair that the Finnish state would gain great advantages as a reward.²⁶ Basically, the Finnish government officials and corporations were executing exactly the same policy as Germany did with Finland in the spring of 1918. The wide economic benefits given to Germany in a treaty signed in Berlin were justified on the grounds of military assistance as well. The treaty itself was later seen as unfavourable for the Finnish

²⁰ Excluding beverages, sugar, tobacco and syrup, which had tariff reductions, and margarine, which did not possess any reductions.

²¹ Governmental bill on the signing of the treaty of commerce and navigation between Estonia and Finland, 30 March 1922. UMA, 58B1, box 148.

²² **Pihkala, E.** *Der Baltische Handel Finnlands 1835–1944*, 22–23.

²³ **Tuomipuu, J.-P.** *Suomen ja Viron taloussuhteet 1919–1922*. University of Helsinki, 1991, 6.

²⁴ **Pihlamägi, M.** *Väikeriik maailmaturul*, 109; **Lamberg, J.-A.** *Taloudelliset eturyhmät neuvotteluprosesseissa. Suomen kauppasopimuspolitiikka 1920–1930-luvulla*. Suomen Tiedeseura, Helsinki, 1999, 37. Both countries presented a new customs tariff in 1919.

²⁵ **Zetterberg, S.** *Suomi ja Viro 1917–1919: poliittiset suhteet syksystä 1917 reunavaltiopoliitiikan alkuun*. Suomen Historiallinen Seura, Helsinki, 1977, 192.

²⁶ **Zetterberg, S.** *Suomi ja Viro 1917–1919*, 208–210, 259.

private sector.²⁷ Even the first draft of a trade treaty between Finland and Estonia bore many similarities with the Finno-German trade treaty of 7 March 1918. This draft was devised in July 1919 in collaboration with Estonian officials and sent to Tallinn for evaluation. The treaty itself was very one-sided, like the treaty between Germany and Finland, suggesting special benefits to Finland alone. While Estonia was still in the process of creating a new customs tariff, no further negotiations resulted from this suggestion during the year.²⁸

The Finnish plans in general led to disappointment among the Finns, as the difficult situation in the Estonian front started to improve during the spring of 1919. The Finnish officials found that Estonia was more interested in giving benefits and goods to stronger allies like the British who had helped Estonia as well. The Finns were clearly bitter that the promising situation of just a few months ago had passed and the help given to Estonia did not bear fruit.²⁹ The first year of economic relations between Estonia and Finland is thus best described as a one-sided attempt on the part of the Finns to gain special advantages and markets in Estonia.³⁰ Hjalmar Göös, the Finnish consul, later described the British policies in Estonia. He noted that one British businessman had told him: “Estonia is like a lemon, when we have squeezed enough, we will throw it back to Russia”.³¹ Clearly, the British were not the only ones hoping for some lemon juice.

The Finnish attitude towards Baltic markets was actually quite different from that of other countries. The Scandinavian countries and especially the United Kingdom were more interested in the Baltic countries as a gateway to Russia, not so much as a market for their products. In Sweden, the independence of the three Baltic countries was considered a brief and transitory episode, and it was believed that the large Russian market would return in a few years. The Finnish position, i.e. seeing the Baltic states first and foremost as a new market, was of course quite unsurprising because the Finnish products did not need a gateway to the great eastern market and Finland was actually competing for a share in the transit trade between Russia and Europe with Estonia and Latvia.³²

²⁷ **Rautkallio, H.** *Kaupantekoa Suomen itsenäisyydellä : Saksan sodanpäämäärät Suomessa 1917–1918.* WSOY, Helsinki, 1977, 151, 176–179.

²⁸ Entwurf zum Handels- und Schifffahrtsvertrag zwischen Finnland und Estland, July 1919. ERA, 957-11-165, 120; **Tuomipuu, J.-P.** *Suomen ja Viron taloussuhteet 1919–1922*, 48–50. The head of the committee was the Finnish consul in Tallinn Yrjö Putkinen. See Ministry for Foreign Affairs to consul Yrjö Putkinen, 14 July 1919. UMA, 58B1, box 148.

²⁹ **Zetterberg, S.** *Suomi ja Viro 1917–1919*, 212.

³⁰ See **Hovi, K.** *Interessensphären im Baltikum. Finnland im Rahmen der Ostpolitik Polens 1919–1922.* Vammalan Kirjapaino Oy, Vammala, 1984, 45–50.

³¹ Consul Hjalmar Göös to the Finnish Ministry for Foreign Affairs, 12 February 1920. UMA, 58B1, box 148.

³² **Lehti, M.** *A Baltic League as a Construct of the New Europe*, 350; **Nordlund, S.** *Temporary partners or permanent connections? Scandinavian responses to the Baltic-State markets, 1918–1940.* – In: *Emancipation and Interdependence. The Baltic States as New Entities in the International Economy, 1918–1940.* Eds A. Johansson, K. Kangeris, A. Loit, S. Nordlund. Centre for Baltic Studies, Stockholm University, Uppsala, 1994, 221.

By the summer of 1919, it was clear that Finland would not gain any special advantages in Estonia. The atmosphere of political relations changed drastically during the next months and one of the main advocates of Finnish advantages, the chargé d'affaires Alfred Oswald Kairamo, resigned in the summer. He was especially disliked by the Estonians because of his pro-German sentiments.³³ The so-called border-state policy started to gain support in Finland. This cooperation had begun as an idea for a Balto-Scandinavian coalition known as the Baltic League, which however did not gain wider support due to the lack of interest in Scandinavia.³⁴ Plans for economic relations were part of the discussion. In a memorandum written in autumn 1918 Ants Piip and Karel Pusta described the Baltic League and were especially eager to promote free trade and the most favoured nation principle as the basis of its economic policy. Promoting free trade and free ports between Russia and the western powers was a central theme in Estonian plans during the year 1918, and was clearly aimed to gain the interest of the western powers.³⁵

In the field of economic plans, the Finns were especially active. Already in 1919 two pamphlets promoting economic cooperation with Estonia and the border states had been published. Harri Holma, the secretary of the Aid-to-Estonia Committee, described the on-going plans for economic cooperation and Yrjö Jahnsson drew up the outline for a wider economic area between the Black Sea and Finland.³⁶

These two plans, and a third more thorough plan written by V. M. J. Viljanen, a Finnish government official, had one central detail in common. They were all based on the same principle by which Finland would be the manufacturer of industrial products, while the southern countries would mostly provide agricultural produce and raw materials. It was considered that the economic structure of Finland, and especially that of Estonia, complemented each other, creating a self-sustaining area. Konstantin Päts had put forward this principle in January 1919 as the basis for economic cooperation between Estonia and Finland, and Gustav Suits had mentioned it in his plan for a Finno-Estonian union already in November 1917 as well.³⁷ Only a very limited group of people knew that such a principle also

³³ **Hovi, K.** Interessenssphären im Baltikum, 50; **Zetterberg, S.** Suomi ja Viro 1917–1919, 189.

³⁴ **Roiko-Jokela, H.** In light and shadow. Turning-points in Finnish-Estonian relations between the years 1860–1991. – In: Relations between the Nordic Countries and the Baltic Nations in the XX Century. Ed. K. Hovi. Institute of General History, Turku, 1998, 91–93.

³⁵ The Baltic League, November 1918. ERA, 1624-1-87, 8. For Estonian plans in 1918 see for example Esthonia. Her claim for independence, spring 1918. ERA, 1619-1-8, 8; Memorandums of the Estonian foreign delegation 20 March 1918 and 16 August 1918: Jaan Tõnisson Eesti välispoliitika 1917–1920. Dokumente ja materjale. Comp. H. Arumäe, T. Arumäe. Jaan Tõnissoni Instituut, Tallinn, 1993, 79, 93; **Pihlamägi, M.** Väikeriik maailmaturul, 108–109.

³⁶ **Jahnsson, Y.** Reunavaltioiden merkitys Suomelle. Viipuri, 1919, 1–4; **Holma, H.** Viro ja Suomi : poliittis-yhteiskunnallinen katsaus : esitelmä Turun Suomalaisen Yliopistoseuran esitelmäkokouksessa Turussa 21.4.1919. Helsinki, 1919, 14–20. See **Lehti, M.** Reunavaltiot talusalueena : idea ja toteutus. – Faravid : Pohjois-Suomen Historiallisen Yhdistyksen Vuosikirja, 1996, 18–19, 229.

³⁷ **Piip, A.** Tormine aasta. Ülevaade Eesti välispoliitika esiajast 1917–1918. aastal dokumentides ja mälestusis. Kirjastus Vaba Eesti, Örebro, 1966, 61.

constituted a part of the plans for a Finnish-Estonian dual-state, which Päts and Jaan Poska prepared in the spring of 1918 and gave to Carl Enckell, who was the Finnish representative in Petrograd at that time. Clearly the war-related lack of goods, especially of food in Finland affected the Estonian proposals.³⁸

The motive behind the Finnish plans was the need to compensate for the lost Russian market, of which the area of the border states actually was a former part. The main objective in Finnish trade policies was to gain new markets in the west but many of the country's industrial products that were originally designed for the Russian market could not compete, for example, in France or the United Kingdom.³⁹

Marko Lehti has considered the importance of the pamphlets mentioned above. Lehti comes to the conclusion that while the writers prepared these plans as private persons, it is unclear whether they had an influence on the official policies. According to Lehti, these ideas did not materialise in the Baltic cooperation in spite of the many declarations made in the conferences.⁴⁰ However, when looking at the bilateral relations, the situation looks different.

The pamphlet published by Viljanen was written just before the first major border state conference, which took place in Helsinki in January 1920. At the same time, the Finnish Committee for Trade Treaties came together for the first time. This special committee was formed in the autumn of 1919 and its function was to start preparing commercial treaties for Finland, the agreement with Estonia being the first in line.⁴¹ One of the members was V. M. J. Viljanen, the Director of the Committee for Trade and Industries, who already in the first meeting outlined the same principles for trade between Finland and the border states as he had done in his pamphlet. He underlined the importance of the border states and played down the economic ties with Scandinavia.⁴² Viljanen was a member of the

³⁸ **Piip, A.** *Tormine aasta*, 205, 207; **Zetterberg, S.** *Suomi ja Viro 1917–1919*, 43–46, 88–89. The idea was also promoted by other Estonians. See **Hanko, A.** *Taloudellinen elämä*. – In: *Viro ja Virolaiset*. Ed. G. Sarva. Porvoo, 1919.

³⁹ **Viljanen, V. M. J.** *Suomi, Reunavallat ja Venäjän kysymys*. Talouspoliittinen tutkielma. Edistysseurojen Kustannus Oy, Helsinki, 1920, passim.; **Lehti, M.** *Reunavaltiot talousalueena*, 230–231. About the suggestions made by Päts, see **Zetterberg, S.** *Suomi ja Viro 1917–1919*, 196–199. Interestingly, only a few months earlier, in the spring of 1919 Viljanen had not considered the border states a good compensatory market but only emphasised the importance of the Entente. **Viljanen, V. M. J.** *Taloudelliset pyrkimykset meillä ja muualla*. Selvitystä eräisiin taloudellisiin päivänkysymyksiin. Kotimaisen Työn Kustannus Oy, Helsinki, 1919, 16–17.

⁴⁰ **Lehti, M.** *Reunavaltiot talousalueena*, 231.

⁴¹ More on the status of the committee, see **Lamberg, J.-A.** *Taloudelliset eturyhmät neuvotteluprosesseissa*. Suomen kauppasopimuspolitiikka 1920–1930-luvulla, 35. The preparations for a treaty with France also started in January. France had high customs rates and was considered an important economic and political partner. The United Kingdom was not an issue while it was the main supporter of free trade. Trade relations with Germany were difficult because the country could only sign treaties based on the most favoured nation principle enforced by the Versailles treaty. At that time, the committee did not see advantages in signing treaties based on that principle.

⁴² Minutes of the Committee for Trade Treaties, 5 January 1920. UMA, 58Da, box 401. Viljanen was sceptical about the Scandinavian trade already in the spring of 1919, stating that Sweden, Norway and Denmark were actually the main competitors of Finland. **Viljanen, V. M. J.** *Taloudelliset pyrkimykset meillä ja muualla*, 16–17.

Progressive Party, which in turn was the main supporter of the Baltic cooperation in Finland. It is clear that the pamphlet written by Viljanen and the policies formulated in the meeting of the committee were influenced by the budding cooperation. The main economic idea, the compensating trade between Finland and Estonia, had already been disputed in the spring of 1919 by Väinö Voionmaa who, while supporting the idea of a union between Estonia and Finland, judged that, economically, the two were too similar to create a significant turnover of trade.⁴³

The minutes of the Committee for Trade Treaties show that Viljanen was not alone in supporting these ideas. In particular, the chair of the committee, Bank Manager Alfred Norrmén, supported Viljanen's view and even brought forward a suggestion for a customs union between Finland and Estonia, which would ensure the export of industrial products and import of agricultural produce. According to Norrmén, this plan was even supported in principle by Jaan Tõnisson, the Estonian prime minister, and Oskar Kallas, the chargé d'affaires in Finland.⁴⁴ The customs union was considered a step too far, however, because it would have required long and difficult negotiations over the customs tariff and other arrangements. The committee actually described the central problems that Estonia and Latvia experienced in their customs union negotiations from 1923 onwards. Because the trade treaty with Estonia was considered necessary and requisite as soon as possible, the committee prepared a different solution.⁴⁵

The new alternative was a tariff treaty, which basically meant that the treaty was designed to include a list of products that would be subject to a lower customs rate. The committee explained in a memorandum that their suggestion was based upon the traditional trade⁴⁶ between Finnish and Estonian fishers and farmers. This was the principle that the committee now wanted to extend by creating a tariff treaty pursuant to which all industrial and agricultural products originating from the signatory countries would be duty free. Because the committee believed Finland to be more of an industrial country, whereas Estonia was better situated as the provider of agricultural products, the two countries were thought to complement each other. Therefore, unlike in the draft from July 1919, this new plan also included granting benefits to Estonia, although the treaty was still seen to be more beneficial to the economically more powerful Finland.⁴⁷ The main goal was still only the creation of new markets in the south, just like a year before, wherefore the political

⁴³ **Voionmaa, V.** Suomen uusi asema. Maantieteellisiä ja historiallisia peruspiirteitä. Porvoo, 1919, 421, 463. This view is shared also by contemporary researchers and believed to be the main reason for the troubled economic relations among the Baltic States and Finland.

⁴⁴ Minutes of the Committee for Trade Treaties, 22 January 1920. UMA, 58Da, box 401.

⁴⁵ Memorandum written by the Committee for Trade Treaties, 1 April 1920. UMA, 58B1, box 148. About the customs union negotiations between Estonia and Latvia, see **Medijainen, E.** Eesti välispoliitika Balti suund, 48–58.

⁴⁶ This was the so-called “seprakauppa” in Finnish or “sõbrakaubandus” in Estonian. For a thorough study see **Päiviö, R.** Mikä tappoi seprakaupan. Suomalaisten ja virolaisten harjoittamasta vaihtoele seprakaupasta, sen hiipumisesta 1800-luvun lopulta ensimmäiseen maailmansotaan ja sen loppumisesta 1920- ja 1930-luvuilla. University of Turku, 2009.

⁴⁷ Memorandum written by the Committee for Trade Treaties, 1 April 1920. UMA, 58B1, box 148.

content of the proposal should not be exaggerated. However, the wording in the memorandum, which was sent to the Ministry for Foreign Affairs together with a draft of the actual treaty, could not have been closer to the views expressed by V. M. J. Viljanen just a few months earlier.

The benefits conferred by a customs union would have normally fallen outside the most favoured nation principle.⁴⁸ Now, because the committee suggested a tariff treaty, possible problems with future commercial treaties arose. If Finland were to sign a treaty based on the most favoured nation principle, all the special customs benefits given to Estonia would be automatically transferred to a third country and the scale of the planned benefits would not allow this. Leonard Åström, the head of the Trade Department of the Finnish foreign ministry, wrote in April 1920 that the suggested treaty would lead to two alternatives. Finland could abstain from treaties based on the most favoured nation principle altogether or could try gain an exception to the principle regarding Estonia in all such treaties. Åström believed that other countries would agree to this.⁴⁹

Here we can find the first official proposal concerning the so-called Estonian exception. It was a solution which enabled the Finns to gain a strong position in the Estonian market and at the same time safeguard the obligatory concessions given to Estonia from third countries. Not only did the basic form of the Estonian exception come into consideration, but also the broadest version of the Baltic Clause was already on the drawing board by the spring of 1920.

In the 1920s, most of the Finnish commercial treaties were based on the most favoured nation principle. According to some researchers, the treaties which did not follow this principle were the result of difficult negotiations or, as in the case of Estonia, of special political circumstances.⁵⁰ It is quite clear, however, that in the spring of 1920, the Committee for Trade Treaties had absolutely no intention of supporting the use of the most favoured nation principle in any Finnish commercial treaties.⁵¹ The whole system of trade treaties was to be built on special tariff treaties signed with the most important trading partners. This became especially apparent when Germany suggested a new commercial treaty⁵² including the most favoured nation principle in May 1920.

⁴⁸ In the trade treaties signed before the war, an exception concerning customs unions was common practice, and can be found, for example, in many German treaties.

⁴⁹ Memorandum for the Finnish Minister of Foreign Affairs Rudolf Holsti written by the head of the Trade Department of the Ministry of Foreign Affairs Leonard Åström, 29 April 1920. UMA, 58B1, box 148. The difficulties concerning the most favoured nation principle and the special advantages designed for Estonia were already discussed a little earlier. Memorandum written by the Foreign Ministry official Ilmari Saari, 2 January 1920. UMA, 58Da, box 400.

⁵⁰ See for example **Lamberg, J.-A.** *Taloudelliset eturyhmät neuvotteluprosesseissa*, 59; **Aunesluoma, J.** *Vapaakaupan tiellä. Suomen kauppaja- ja integraatiopolitiikka maailmansodista EU-aikaan.* Suomalaisen Kirjallisuuden Seura, Helsinki, 2011, 43–44.

⁵¹ This fact is also noted by Juha-Pekka Tuomipuu and Asko Korpela. **Tuomipuu, J.-P.** *Suomen ja Viron taloussuhteet 1919–1922.* University of Helsinki, 1991, 50; **Korpela, A.** *Suomen kauppasopimusneuvottelut.* (Liiketaloustieteellisen tutkimuslaitoksen monisteita nro. 16.) Helsinki, 1966, 80–81.

⁵² The treaty signed in 1918 was nullified at the Paris Peace Conference.

The Committee for Trade Treaties was very sceptical and was of the opinion that Finland should not adopt the most favoured nation principle, especially in the case of customs rates. The committee wrote in their memorandum that it would render the granting of special advantages to border states difficult and in turn Finland would not be able to get benefits in these markets. The border states were considered economically undeveloped and inferior in comparison with Finland, so granting them even more extensive advantages would not be a problem because they would not be able to use their benefits to the full. The committee even declared that the border states together with Russia were the largest and most natural export market for Finnish products. As a resolution, the committee saw that granting the most favoured nation principle would only be possible if Russia and “nations born out of it”, that is the border states, were given special exemption from the principle.⁵³

As we can see, this prototype of the Baltic Clause introduced in the spring of 1920 was still only a potential solution. There was no intention of including the most favoured nation principle into Finnish commercial treaties and nothing came out of the German suggestion. Nevertheless, if such a principle were to be mandatory in some future agreement, it was planned that Russia and the border states would have to be accorded special status. Here, the committee clearly had an emerging plan for economic relations with the southern neighbours, and the agreement with Estonia was one part of this process.

At the same time, the Estonians were preparing a similar policy. The peace treaty between Estonia and Soviet Russia signed in February 1920 dealt with economic aspects as well and included the most favoured nation principle. However, the principle was limited with a customs union clause. Such a clause was common practice in trade treaties, limiting the most favoured nation principle in the case of customs unions, but the Estonian version also mentioned “other alliances”, thus widening the conventional meaning. According to Erkki Reijonen, the Finnish representative in Estonia, the Estonian peace negotiator Jaan Poska had told him that the clause was included with, e.g., the border state alliance and a customs union between Finland and Estonia in mind.⁵⁴

The big difference was, of course, that while the Estonian clause called for an alliance or a customs union, the original Finnish version was specifically designed to work without any such union.⁵⁵ The idea of the Baltic Clause thus fitted perfectly with what Marko Lehti has called the Finnish *cooperation without alliance* discourse.⁵⁶

⁵³ Memorandum written by the Committee for Trade Treaties, 1 June 1920. UMA, 58Da, box 401. The same viewpoints were repeated in September and the committee even stated that the most favoured nation principle would ruin the committee’s plan for Finnish trade policy while making it impossible to grant special privileges to border states. Memorandum written by the Committee for Trade Treaties, 22 September 1920. UMA, Secret minutes of the Finnish government.

⁵⁴ Erkki Reijonen’s memorandum on the draft of the Finno-Estonian trade agreement, 12 March 1920. UMA, 58B1, box 148.

⁵⁵ It should be also noted that the Estonians did not include the extended customs union clause in their trade treaty with the United Kingdom in the summer of 1920.

⁵⁶ **Lehti, M.** A Baltic League as a Construct of the New Europe, 361.

In conclusion, it can be said that the Finnish prototype of the Baltic Clause was originally only meant for *protecting the economic advantages, which Finland sought to achieve* in the markets of Russia and the border states. This means that the Finnish idea for the Baltic Clause was not so much a gateway towards deeper economic cooperation with the Baltic states – or at least the cooperation was considered to be quite one-sided. The planned clause was more a tool designed to help Finnish industries to compete in the new markets in the south. However, the prototype of the Baltic Clause soon became a part of the border state cooperation and was adopted by other countries as well.

PASSING THE PRINCIPLE BUT STAYING OUTSIDE

Introducing the Baltic Clause to trade treaties

In May 1920, Rudolf Holsti, the Finnish foreign minister, met Ants Piip, the Estonian diplomatic representative in London, and told him details about the draft the Finnish committee had prepared. Holsti explained that the proposal was based on free trade between the two countries. Finland would get food supplies from Estonia and would not therefore be reliant on Russia. Estonia, in return, would get industrial products from Finland and thus free herself from commercial ties to Russia and Germany.⁵⁷ Despite these optimistic views, the preparations for a trade treaty between Finland and Estonia came to a standstill in June 1920. Both countries were still regulating their foreign trade and the Finns could not get export licenses for the goods they wanted. Estonia was also suffering from a lack of foreign currency. The Estonian government was more interested in trading with the British and there was a limited supply of exports. For these reasons, the Finns quickly came up with a new proposal for a temporary trade treaty, which was only designed to ensure a share in the Estonian export licenses and an equal position with the United Kingdom. However, the Estonian government led by Jaan Tõnisson showed no interest in signing such a treaty. The wheels started to turn again in October when a new government took office and by the end of the year the Finns started to prepare for negotiations for the actual trade treaty.⁵⁸

The negotiations between Estonia and Finland started in March 1921. The Finnish proposal was based on the original plan devised by the Committee for Trade Treaties a year earlier. The central difference was that the original idea of declaring all industrial and agricultural products duty free was more limited in the new proposal. This was due to the fact that Estonia had already signed a trade treaty with the United Kingdom and a peace accord with Soviet Russia, which both included a most favoured nation clause. The new solution was to determine detailed tariff lists containing the products for which Finland and Estonia would

⁵⁷ Memorandum of a meeting between Rudolf Holsti and Ants Piip, 2 May 1920. ERA, 1624-1-17, 56.

⁵⁸ Finnish Ministry for Foreign Affairs to chargé d'affaires Erkki Reijonen in Tallin, 6 July 1920. UMA, 58B1, box 148; **Tuomipuu, J.-P.** Suomen ja Viron taloussuhteet 1919–1922, 25–27, 56, 62–67. It was even suggested that Tõnisson had some personal grudges against the Finns.

grant each other customs discounts. The Finns emphasised that these would not include products which the United Kingdom or Russia were planning to export to Estonia. The core of the treaty had remained basically the same with Estonia selling agricultural produce and Finland industrial products.⁵⁹ Already in the first meetings it became apparent that the Estonians were willing to accept the idea of a tariff treaty and were even ready to grant full exemptions to some tariff list items.⁶⁰ The fact that the original idea of a customs union with Estonia had not been fully abandoned was apparent in the negotiations in 1921. Already in the first meetings when discussing the Estonian proposal the representatives of the two countries declared that they had no intention of creating a customs union with a third country, only between themselves.⁶¹

The basic idea of the Baltic Clause was repeated in a Finnish memorandum written on 16 May 1921. It was stated that the goal was to create *a system of preference between Finland and Estonia, which would not be extended to other countries and which would be safeguarded in future agreements with a special reservation*. The memorandum emphasised that the treaty at hand could be even considered as a preparatory step towards a customs union and that the Estonians had been very enthusiastic about such an idea. Following a familiar idea, it was thought that this cooperation had an economic justification as well, because the economies of the two countries complemented each other, which was considered a precondition for a customs union. The memorandum came to the conclusion that pursuing such a policy would be a concrete form of Baltic cooperation.⁶² This was actually the first time the planned reservation was clearly connected to the wider political cooperation with the Baltic states and Poland. The original reservation had thus received new political content and was changing towards the institution known as the Baltic Clause.

A new article, which incorporated precisely the same views, was incorporated into the draft of the treaty in June 1921, but, unexpectedly, by the Estonian negotiators. It was in this article that, e.g. Pihlamägi and Kaasik identified the first use of the idea of the Baltic Clause in which the Finns and the Estonians agreed not to extend the special privileges they had granted each other to third countries.⁶³ The final version of the article declared that:

⁵⁹ Memorandum written by the Committee for Trade Treaties, 9 February 1921. UMA, 58B1, box 148.

⁶⁰ Memorandum written by the Ministry for Foreign Affairs, 18 March 1921. UMA, 58B1, box 148.

⁶¹ Minutes of the Finno-Estonian trade negotiations, 17 March 1921. UMA, 58B1, box 148. The declaration was made when discussing the so-called “customs union clause”. It would seem that it was V. M. J. Viljanen who was the main Finnish spokesman for a customs union. He discussed such plans with the Estonians as late as 1931. Minutes of the Foreign Affairs Committee of the Riigikogu, 15 April 1931. ERA, 957-18-33, 139.

⁶² Memorandum written by the Ministry for Foreign Affairs, 16 May 1921. UMA, 58B1, box 148. Interestingly, it was exactly in May 1921 when Ants Piip, the Estonian foreign minister, visited Finland and lobbied for closer cooperation between Estonia, Latvia and Finland.

⁶³ Minutes of the Finno-Estonian trade negotiations, 20 June 1921. UMA, 58B1, box 148; **Pihlamägi, M.** Väikeriik maailmaturul, 88; **Kaasik, N.** The Baltic Clause in treaties of commerce, 178–180.

The two Contracting Parties hereby declare that the advantages and privileges, and in particular the tariff reductions laid down in this Treaty, shall in no case, and on no conditions whatsoever, be extended to other States in pursuance of agreements containing most favoured nation clauses; and they mutually undertake to have regard to this article when concluding any international treaties.

Although it was the Estonians who formulated the first version of this particular article, it is apparent that the Finnish memorandum written in May also supported identical principles. The ideas expressed in the Finnish memorandum and in the Estonian suggestion were, in fact, so similar that the article, or at least the policy it presented, was most likely discussed already before it was introduced in June.

Interestingly, the original formulation of the article also included a sentence which stated that “[...] tariff reductions laid down in this Treaty, as a first step towards a customs union, shall in no case [...]”.⁶⁴ This reference to a customs union remained untouched and the article was accepted in one of the last meetings between the Estonian and Finnish negotiators in October.⁶⁵ However, for some reason there is no mention of a customs union in the final treaty signed on 29 October 1921.⁶⁶ In his diary, envoy Erkki Reijonen writes that the Finnish government wanted to make some last minute changes in the treaty at the end of October just a few days before the signing.⁶⁷ It seems likely that these one-sided changes included the removal of the reference to a customs union and this is also confirmed in a statement made by the foreign minister Ants Piip to the Finnish envoy in Tallinn almost ten years later. In January 1930, Piip had said that:

When the first Finno-Estonian commercial treaty was prepared, it included a paragraph which claimed that the treaty would serve as a basis for a future customs union. The paragraph was finally left out at the request of the Finns. The treaty was thus designed to create a basis for a future economic area [...]⁶⁸

The Estonians were clearly displeased with the decision and even made indirect public references to the sentence. In January 1923, Eduard Virgo held a presentation in a meeting of the Finnish-Estonian Society where, according to Erkki Reijonen, he said that the commercial treaty could be seen “as a first step towards a customs union” between Finland and Estonia.⁶⁹ Exactly the same concept – that is the 1921 treaty being a first step towards a customs union – was even mentioned in an article published in the Finnish *Suomen Ulkomaankauppa* journal as late as 1931,

⁶⁴ Draft of the Finno-Estonian trade treaty, 20 June 1921. UMA, 58B1, box 148. Translation by author.

⁶⁵ Minutes of the Finno-Estonian trade negotiations, 22 June 1921. UMA, 58B1, box 148.

⁶⁶ In September 1921, during a Baltic conference in Riga, Estonian representative Alexander Sack introduced his plan for an economic union between the border states. Possibly, the Finnish government at that time wanted to avoid direct references to such plans. See **Lehti, M.** A Baltic League as a Construct of the New Europe, 352.

⁶⁷ Diary of Erkki Reijonen, 28 October 1921, National Archives of Finland (KA), collection of Erkki Reijonen, box 27.

⁶⁸ Envoy Aarne Wuorimaa to foreign minister Hjalmar Procopé, 24 January 1930. UMA, 5C12. Translation by author.

⁶⁹ Diary of Erkki Reijonen, 13 January 1923. KA, collection of Erkki Reijonen, box 27.

a few months after the revision of the trade treaty had created a political storm between Estonia and Finland.⁷⁰

Even though the Finns wanted to remove the reference to a customs union, the basic idea of the Baltic Clause was left intact in the article. Already in July 1921 the Finns had signed a commercial treaty with France, which included an exception to the most favoured nation principle in the case of Estonia.⁷¹ The Finnish negotiators did not want to include the most favoured nation principle in the treaty, but the alternatives suggested by the French negotiators were considered even more disadvantageous to Finland. This being the case, the negotiators decided to demand a reservation for the advantages that would be given to Estonia and the nations bordering Finland.⁷² This turned out to be difficult and it was considered to leave out even the “Estonian exception” from the treaty.⁷³

Probably the main reason for preserving the “Estonian exception” in the Finno-French treaty was a telegram sent by Ilmari Saari, who was participating in the Finno-Estonian negotiations at the same time. On 21 June he told his colleague Leonard Åström, who was one of the negotiators in Paris and had been negotiating the Estonian treaty a few months earlier, that the exception regarding Estonia was becoming important. This was due to the fact that the Estonian negotiators had just suggested introducing a special provision into the Finno-Estonian treaty, which would insure that the two countries would not extend the special benefits they had granted each other to third countries. This provision insisted that an exception be inserted into all future trade treaties, the French treaty potentially being the first one.⁷⁴ Åström was, of course, quite familiar with the idea because he had written a memorandum about it just a few weeks earlier.

Remarkably, the Estonians who in turn started their negotiations with France in October 1921 chose to use the Finno-French agreement as a starting point.⁷⁵ This naturally included also the prototype of the Baltic Clause. The Estonians wanted a clause concerning customs unions, which they already had in the Tartu Peace Treaty with Soviet Russia and in the commercial treaty with Finland, but, in addition, they wanted to include a list of countries to which they could grant special benefits. This list contained Finland, Latvia, Lithuania and Russia. The formulation of the paragraph was identical to the equivalent paragraph in the Finno-French treaty with the exception that the Finnish treaty only mentioned Estonia. The French declined the use of a general customs union clause and only

⁷⁰ Eestin-Suomen kauppasopimuksen periaatteellinen merkitys. – Suomen Ulkomaankauppa, 25.9.1931, 503.

⁷¹ **Pihkala, E.** Suomalaiset maailmantaloudessa keskiajalta EU-Suomeen. Suomalaisen Kirjallisuuden Seura, Hämeenlinna, 2001, 150–151.

⁷² Memorandum written by the Finnish negotiators, 28 May 1921. UMA, 58B1, box 80.

⁷³ Instructions to the negotiators, 20 June 1921. UMA, 58B1, box 80.

⁷⁴ Ilmari Saari to Leonard Åström, 21 June 1921. UMA, 58B1, box 80. According to the Minutes of the Finno-Estonian negotiations, the Estonians introduced the new article only a day before. Minutes of the Finno-Estonian trade negotiations, 20 June 1921. UMA, 58B1, box 148; Draft of the Finno-Estonian trade treaty, 20 June 1921. UMA, 58B1, box 148.

⁷⁵ Foreign minister Ants Piip to the Estonian government, 7 October 1921. ERA, 957-5-56, 25.

accepted Finland and Latvia to be placed outside the most favoured nation principle. Here the French seem to have had a clear policy. They only granted a special position for specified bordering countries – excluding Russia. This was the case in the Finno-French agreement as well, because according to an Estonian memorandum, the French negotiators claimed that, back in June 1921, they had thought that Estonia and Finland had a common border.⁷⁶

France was not the only third country participating in the creation of the clause. When Sweden suggested a trade treaty with Estonia in the spring of 1921, the draft included the Scandinavian Clause.⁷⁷ As a countermeasure for the exceptions regarding Denmark and Norway, the Estonian Ministry of Trade and Industry suggested that Estonia should demand a similar clause, which in turn would include Finland, Latvia and Lithuania. The fact that this was indeed a way of balancing the treaty can be seen from a memorandum written by the foreign minister Aleksander Hellat:

Because the Swedish draft had a reservation concerning its bordering nations Norway and Denmark, Estonia made a reservation concerning Finland, Latvia and in addition Lithuania as bordering nations.⁷⁸

This formulation was created at the very same time in June 1921 when the Finnish negotiators were in Paris and the Estonian negotiators in Helsinki. The Estonian suggestion was approved by Sweden later the same year and included in the final treaty signed in 1923.⁷⁹

The relationship between this imitation of the Scandinavian Clause in the preliminary negotiations between Estonia and Sweden and the special article in the Finno-Estonian treaty introduced in June 1921, which in turn contributed to the inclusion of the “Estonian exception” in the Finno-French treaty, is unclear. If the article in the Finno-Estonian treaty was single-handedly devised by the Estonians, it would be safe to say that the Baltic Clause was put into effect purely on Estonian initiative. However, as noted above, the Finnish officials clearly already had an identical vision before the Estonian negotiators introduced the new article, thus, some form of coordination is evident. Furthermore, the fact that the basic formulation of the Baltic Clause is mentioned in Finnish memorandums written a

⁷⁶ Memorandum concerning the French-Estonian commercial treaty, November 1921. ERA, 957-5-56, 67; Kaarel Pusta to Ants Piip, 9 November 1921. ERA, 957-5-56, 108; Draft of article 12 of the Estonian-French commercial treaty, November 1921. ERA, 957-5-56, 231; Draft of the Estonian-French trade treaty, October 1921. ERA, 957-5-6, 2–4; Estonian memorandum, June 1922. ERA, 957-5-57, 7; Instructions for Estonian negotiators, 15 November 1921. ERA, 957-5-57.

⁷⁷ The Scandinavian countries had decided in autumn 1920 to start demanding a Scandinavian Clause to their trade treaties. **Kalela, J.** Grannar på skilda vägar, 231.

⁷⁸ Memorandum written by the Estonian foreign minister Aleksander Hellat, March 1923. ERA, 957-5-58, 30.

⁷⁹ Memorandum written by the Estonian foreign minister Aleksander Hellat, March 1923. ERA, 957-5-58, 29–31. Sweden accepted the clause already on 15 December 1921, but the negotiations came to a halt because, according to the Estonian constitution, it was not possible to sign trade treaties with the exchange of notes.

year earlier suggests that Finland was the prime initiator, although the Estonians applied the principle to a wider group of countries already in June 1921.

Another option is that the Baltic Clause had been already discussed earlier in some other connection. When looking through the papers prepared in the border state conferences before spring 1921, one cannot find any clear signs of the Baltic Clause, although a number of other economic questions were dealt with. Still, according to an Estonian memorandum written in 1937, the issue was handled in the Bulduri conference in August 1920. The memorandum claims that the customs union clause, which was included in the peace accord between Estonia and Soviet Russia, was considered too vague by the conference, and thus the creation of a Baltic Clause was suggested and discussed.⁸⁰ This discussion is, however, not evident in the minutes of the Bulduri conference and Nikolai Kaasik actually writes in 1935 that “the idea of developing the Baltic states into a distinct economic group was discussed, even though the final report [of the Bulduri conference] fails to mention it”.⁸¹ However, the way in which the special reservations were discussed in 1921 during the trade negotiations both in Estonia and Finland do not imply in any way that such a common policy had been agreed on in Bulduri. As Maie Pihlamägi has shown, before 1922, Estonia did not even have a clear policy concerning new trade treaties and the signed treaties followed no concrete set of principles.⁸²

Clearly the original Finnish aim was to gain a good position on the Estonian market and the “Estonian exception”; the article planned to be included in the Finno-Estonian treaty, was a way to achieve this without the need of a customs union. This was a policy that was agreed upon with Estonia in the spring of 1921 and applied right away in the treaties with France. The Estonians in turn chose to give up the use of a customs union clause in their own treaties, although such a union was already under preparation with Latvia.

The Finnish officials were starting to see the exception as a form of Baltic cooperation, which had not been a clear part of the original discussion. It could be said that the idea of the Baltic Clause was older than the political content attached to it. The influence of the Baltic cooperation became even more apparent when, in the winter of 1922, the Finnish Committee for Trade Treaties suggested that Finland should widen the scope of the clause in future trade treaties to include Latvia and Lithuania.

A turn in Finnish trade policy

Finland started preparing a commercial treaty with the United Kingdom in the autumn of 1921. Only a year earlier the committee had been suspicious when the

⁸⁰ Estonian memorandum concerning the Baltic Clause, December 1937. ERA, 1579-1-77, 18.

⁸¹ **Kaasik, N.** The Baltic Clause in treaties of commerce, 177. An interesting detail is that the Finnish head negotiator in Bulduri was Leonard Åström, who, as it has been shown earlier, had a central position in the formation of the prototype of the clause already in the spring of 1920.

⁸² **Pihlamägi, M.** Väikeriik maailmaturul, 95–97.

British suggested a treaty based on the most favoured nation principle, but for political reasons the negotiations started in December 1921.

In March 1922, the committee commented on the first proposal for a treaty. The position of the Baltic states was central in the prepared memorandum. The committee repeated familiar viewpoints dating back to the beginning of 1920 and the pamphlet by V. M. J. Viljanen, claiming that the economic structure of the border states, Finland, Estonia, Latvia, Lithuania and even Poland complemented each other. According to the committee, the benefits given to Estonia had to be exempted from the terms of the most favoured nation principle but, in addition, Finland also needed to demand a similar exemption regarding Latvia and Lithuania. The agreement with Estonia was claimed to be a step towards a Baltic consumption area, where Finland could sell the same products that Russia used to buy before the war and that did not have a market in the West. Similar treaties with other Baltic states were considered necessary in order to gain markets and, thus, an exception concerning Latvia and Lithuania was now needed in treaties with third countries, such as the United Kingdom. The committee added that it was also necessary that the Baltic states would start implementing the same policy, and at least Latvia had agreed on such a policy.⁸³ The Latvians indeed had already started to demand the presence of the Baltic Clause in their agreements at the beginning of 1922, and the Estonians decided to adopt the use of the clause in all trade agreements in the December of the same year.⁸⁴

The Baltic Clause, taking into account Estonia, Latvia and Lithuania, ended up in the final Finno-British treaty signed in December 1923. However, all other Finnish commercial treaties signed earlier the same year only included the “Estonian exception”. So why did the Finnish decision-makers renounce the use of the wider Baltic Clause? The reasons were political and economic.

The plans for a Baltic consumption area or even a customs union between the Baltic states and Finland, which the Committee for Trade Treaties was outlining in March 1922, had a clear connection to the political cooperation between the border states, although the original Finnish idea for the clause had not been ‘political’ to such an extent in the spring of 1920. It has to be remembered that the committee wrote its memorandum during the heyday of the Finnish border state policy in March 1922. These policies ran into serious problems only a few weeks later. Foreign minister Rudolf Holsti signed a political agreement between Finland,

⁸³ Memorandum written by the Committee for Trade Treaties, 9 March 1922. KA, collection of Juho Vennola, box 50. The suggestion made by the committee is also noted by Asko Korpela. **Korpela, A.** Suomen kauppasopimusneuvottelut, 84.

⁸⁴ **Hiden, J.** The Baltic States and Weimar Ostpolitik, 109; **Pihlamägi, M.** Väikeriik maailmaturul, 88. In a Baltic economic conference held in Riga in September 1921, the Latvian representative suggested that Finland, Poland and Soviet Russia would not sign most favoured nation treaties, thus making it possible to grant benefits to each other. Latvia, Lithuania and Estonia formed a special case because this group had started to plan a customs union and hoped to extend this union to other countries as well. A reservation such as the Baltic Clause was not discussed at least according to the minutes, but can easily be seen to fit into the Latvian plans. Minutes of the economic conference in Riga, 12 September 1921. KA, collection of Juho Vennola, box 45.

Estonia, Latvia and Poland at a Baltic conference in Warsaw on March 17. This created a political protest in Finland, where some political parties saw that Holsti had no mandate for signing such treaties. As a consequence, Holsti resigned, which in turn resulted in a change in Finnish foreign politics.⁸⁵ At the same time, in 1922, the economic cooperation in the field of transit trade, which had been discussed in conferences held between the border states and Russia, encountered problems.⁸⁶

Carl Enckell, the new Finnish foreign minister, had a much more cautious attitude towards the border states. According to Jorma Kalela, Enckell did not want Finland to have a Baltic image and considered it important to avoid too far-reaching commitments with the border states. Enckell thought that the position of the Baltic states was especially inconvenient because they were so important for the Russian trade.⁸⁷ Even though the Baltic cooperation was not abandoned right away, the new policy was to avoid written contracts. This probably affected the policies regarding the Baltic Clause as well.

The economic reasons were twofold. Firstly, the Finnish policy concerning the use of the most favoured nation principle was changing gradually. Hjalmar Procopé, a new member of the Committee for Trade Treaties, had proposed already in the autumn of 1921 the wider use of the most favoured nation principle in Finnish commercial treaties.⁸⁸ The principle was also supported by the League of Nations in the Genoa Conference in the spring of 1922. The majority of the Economic Committee of the conference, with basically only France being against it, supported the principle and opposed bilateral treaties that established special rights and tariffs – the kinds which the Finnish Committee for Trade Treaties had decided to pursue two years earlier.⁸⁹

This contributed to other economic factors. While the most favoured nation principle was now being introduced to the Finnish trade treaties, it became necessary to add the exception concerning the Baltic states to all treaties, as it had been planned in the spring of 1920. This, however, proved to be extremely difficult and controversial. Already in the autumn of 1922, the Finns encountered problems in negotiations with the Netherlands. The Finnish negotiators tried to demand the full Baltic Clause but only the “Estonian exception” was approved by the Dutch. Hjalmar Procopé, who was negotiating the treaty with the Netherlands, was also against the full clause. With Procopé protesting in the meeting, the Committee for Trade Treaties still saw that such a demand was consistent with the policy adopted in the treaty with the United Kingdom earlier the same year.

⁸⁵ **Roiko-Jokela, H.** In light and shadow, 94.

⁸⁶ **Lehti, M.** A Baltic League as a Construct of the New Europe, 358.

⁸⁷ **Kalela, J.** Ulkoministeri Enckell ja reunavaltio politiikka vuonna 1922. – Historiallinen Aikakauskirja, 1966, 3, 305.

⁸⁸ **Lemberg, M.** Hjalmar J. Procopé som aktivist, utrikesminister och svensk partiman. Procopés politiska verksamhet till år 1926. Svenska Litteratursällskapet i Finland, Hangö, 1985, 209–210.

⁸⁹ **Fink, C.** The Genoa Conference: European Diplomacy, 1921–1922. The University of North Carolina, 1984, 249–250.

The Finnish demands and explanations did not have the desired effect in the negotiations, however, and in November 1922, Procopé informed for the third time that the Dutch had not accepted the full clause to be included into the treaty.⁹⁰

Procopé had become a major player in Finnish foreign politics and was the main negotiator in several trade treaties. Besides being a promoter of most favoured nation treaties, Procopé also had a clear policy concerning the use of the Baltic Clause – such a clause was not needed because Latvia and Lithuania had no economic importance for Finland. Estonia was an exception because a treaty already existed. This viewpoint was apparent in the negotiations with the Netherlands and was also repeated in a memorandum concerning the starting of trade negotiations with Hungary in November 1922.⁹¹ Years later, in 1933, Procopé looked back at the Finnish policies at the beginning of the 1920s and stated that behind the wide benefits given to Estonia, there was a faint idea of creating a customs union between the border states. However, such idea proved to be utopian.⁹² Naturally he failed to mention that he was actively working against such endeavours.

The decisive decision that led to the abandonment of the full clause was made during the negotiations with Soviet Russia. The full clause was included already in the first draft given to the Russian negotiators in December 1922. When the Russian negotiator Viktor Kopp asked the Finns why Latvia and Lithuania should also be placed outside the most favoured nation principle, the Finnish negotiator astonishingly answered that he did not know the reason for such a demand and promised to ask his government. The exception concerning Estonia seems to have been clear and acceptable for Russia starting from the very first meeting.⁹³ Kopp repeated his question in a meeting in February 1923. This time Julius Stjernvall, the Finnish head negotiator, was more prepared. He stated that the geographical location, especially the close maritime connections of Latvia and Lithuania and the probable revival of trade between these countries and Finland were the reasons for the Finnish claim. The Russian negotiators saw that the proposed special position of Latvia and Lithuania would require an economic union between the four Baltic Sea countries. Another option was that Russia would receive a similar compensation, meaning that some other European countries, namely Germany, which was one of the most important trading partners of Finland, would be placed in a special position as well; this was unacceptable for the Finns.⁹⁴ The essential problem

⁹⁰ Minutes of the Committee for Trade Treaties, 22 August 1922. UMA, 58Da, box 401; Foreign minister Carl Enckell to the Finnish embassy in Hague, 31 August 1922. UMA, 58B1, box 4; Memorandum written by the Committee for Trade Treaties, 31 August 1922. UMA, 58B1, box 4; Hjalmar Procopé to foreign minister Juho Vennola, 30 November 1922. UMA, 58B1, box 4.

⁹¹ Hjalmar Procopé's memorandum concerning the trade negotiations with Hungary, 5 November 1922. UMA, 58B1, box 145.

⁹² **Procopé, H.** Några randanmärkingar till Finlands handelstraktatpolitik. – Ekonomista Samfundets Tidskrift, 1933, **28**, 9.

⁹³ Minutes of the Finno-Russian trade negotiations, 18 December 1922. UMA, 58B1, box 51.

⁹⁴ Minutes of the Finno-Russian trade negotiations, 8 February 1923. UMA, 58B1, box 51.

was that Finland did not have any special-arrangement treaties with Latvia or Lithuania – there were only plans for such treaties.

The issue was discussed again in a meeting of the Committee for Trade Treaties on 22 February 1923. The committee stated that Estonia together with Latvia and Lithuania was to be accorded a special position in the Finno-Russian trade treaty. It was explained that this was in accordance with the talks held in the border state conferences during the past years concerning the matter.⁹⁵ Russia was, however, still not ready to grant a special status for Latvia and Lithuania without some compensation, and on 21 March 1923, the committee did a complete turnaround. It now suggested that in the treaty with Russia, and also in all future commercial treaties, Finland should stop demanding exceptions regarding Latvia and Lithuania.⁹⁶ This new policy was adopted very quickly. In the negotiations with the Netherlands, Finland had kept on demanding the full clause, but withdrew after the Dutch again repeated their negative standpoint on 22 March.⁹⁷ In new negotiations with Belgium and Denmark only the “Estonian exception” was demanded.⁹⁸

This decision can be explained by the crucial importance of the planned commercial treaty with Russia but also by the repeated problems of including the Baltic Clause in other Finnish trade treaties. Ironically, in the end, trade negotiations with Russia did not lead to an agreement and the trade with Russia proved to be a bitter disappointment.⁹⁹ Still, the new policy concerning the abandonment of the Baltic Clause remained in force. It even proved problematic to retain the more narrow “Estonian exception”. The biggest problems arose in the autumn of 1923 with Poland, whose negotiators wanted the same benefits that Finland had granted Estonia. There were also difficulties with making an exception to the most favoured nation principle in the Estonian case during talks with Denmark.¹⁰⁰ Understandably, every signed trade treaty which included the “Estonian exception” made such a demand easier in the next negotiations and this would probably also have been the

⁹⁵ Memorandum written by the Committee for Trade Treaties, 19 February 1923. UMA, 58B1, box 51; Instructions to Finnish negotiators, 22 February 1923. UMA, 58B1, box 51.

⁹⁶ Memorandum written by the Committee for Trade Treaties, 21 March 1923. UMA, 58B1, box 51. The matter was possibly discussed unofficially with other Baltic states at an economic conference held in Helsinki at the beginning of March 1923. There the trade relations between the border states and Russia were under discussion. More about the conference, see **Lehti, M.** A Baltic League as a Construct of the New Europe, 359–366.

⁹⁷ Memorandum written by Hjalmar Procopé concerning the trade treaty with the Netherlands, 2 April 1923. KA, collection of Juho Vennola, box 2.

⁹⁸ Memorandum concerning the trade treaty with Belgium, 26 July 1923. KA, collection of Juho Vennola, box 50; Memorandum written by the Committee for Trade Treaties concerning the trade treaty with Denmark, 13 April 1923. KA, collection of Juho Vennola, box 51.

⁹⁹ **Pihkala, E.** Suomalaiset maailmantaloudessa keskiajalta EU-Suomeen, 158. The Russian trade was a disappointment to the Baltic states as well. **Rauch, G. v.** The Baltic States: The Years of Independence: Estonia, Latvia, Lithuania, 1917–1940. University of California Press, Berkeley, 1974, 126.

¹⁰⁰ Memorandum written by Hjalmar Procopé concerning the trade treaty with Denmark 11 July 1923. KA, collection of Juho Vennola, box 51; **Lemberg, M.** Hjalmar J. Procopé som aktivist, utrikesminister och svensk partiman, 218.

case with the full clause. The difference was, however, that in the case of Estonia, there were already actual benefits to refer to, while the customs reductions with Latvia and Lithuania were still speculative.

Finland had stopped demanding the full Baltic Clause to trade treaties even before the commercial treaty with the United Kingdom was signed in December 1923. This was possible because the British accepted the inclusion of the clause early on in the negotiations. There is a draft of the Finno-British commercial treaty from the autumn of 1923, together with a handwritten memo concerning the same issue in the Finnish National Archives in the collection of Juho Vennola. The memo has a question asking whether Finland should retain the exception regarding Latvia and Lithuania now that it had been decided not to pursue such a policy in other treaties. The same question is written in pencil on the first page of the treaty together with an affirmative answer.¹⁰¹ The Baltic Clause in the Finno-British trade treaty thus became a ‘living fossil’ of an extinct trend in Finnish foreign trade policies.

The Baltic Clause proved impossible to implement in Finnish commercial treaties when the most favoured nation principle was introduced. Clearly, the lack of more thorough cooperation with the border states, especially with Latvia and Lithuania, contributed to the abandonment of the full clause – the Finns had nothing to justify such a claim in the trade negotiations with Russia and the Netherlands. Between the signing of the Finno-Estonian trade treaty in October 1921 and the Warsaw Conference in March 1922, there was a period during which the use of the Baltic Clause appeared to be a promising plan of action suitable with the general direction of foreign politics.

CONCLUSION

The policies behind the Baltic Clause clearly show that the ambitious plans devised in the first years of independence enjoyed an undisputed position in the formulation of Finnish foreign trade policies. The influence of the pamphlet written by V. M. J. Viljanen is especially clear because the exact same standpoint is still apparent in the plans described by the Committee for Trade Treaties in March 1922.

Although it would be tempting to romanticise these plans as being connected with the cultural affinities and linkages between Estonia and Finland, the *realpolitik* behind them is evident. All the plans were designed to improve the possibilities and advantages to Finland and its own foreign trade. In addition, the prototype of the Baltic Clause was designed to protect the Finnish position in the markets of the border states. The possibility of a customs union with Estonia was ultimately considered remote, even though it was also raised by the Finns themselves. Therefore, it could be said that for Finland, the Baltic Clause was originally not

¹⁰¹ Anglo-Finnish treaty of commerce and navigation, Autumn 1923. KA, collection of Juho Vennola, box 50.

so much a door to a customs union, as a means of gaining similar advantages without the political burden of such a union.

It is characteristic of the Finnish trade policies that the same reasons which gave rise to the Baltic Clause also underpinned its abandonment. Clearly, the potential advantages of a commercial treaty with Russia were more tempting than the markets of the smaller southern neighbours. The difficulties in the implementation of the full Baltic Clause to other trade treaties also contributed to the decision. The political relations with Scandinavia played no clear role here. Even so, it is interesting that in the 1930s when Finland officially adopted a Scandinavian orientation in foreign politics, a Nordic Clause was discussed and considered as a path towards a Nordic customs union.

KAS BALTI KLAUSEL OLI SOOME ALGATUS?

Antti-Jussi NYGÅRD

Balti klausel oli 1920.–1930. aastate Eesti ja Läti väliskaubanduspoliitikas kasutatud enamsoodustuspõhimõte, mis tugines 1923. aasta Eesti-Läti tolliuniooni lepingule ning mida püüti laiendada ka Leedule. Balti klausel nägi ette tollisoodustuste kasutamist Eesti ja Läti omavahelises kauplemises, samuti kolmandate riikidega sõlmitud kaubanduslepingutes endale õiguse jätmist üksteisele taolisi soodustusi teha. Balti klausli põhimõtted laienesid ka 1934. aastal loodud Balti Liidu majandus- ja kaubanduskoostöösse.

Balti klausli ajalugu on siiani käsitletud peamiselt Eesti ja Läti positsioonilt. See on igati mõistetav, sest 1930. aastate alguseks oli see mõiste muutunud Eesti ja Läti väliskaubanduspoliitika ametlikuks osaks. Balti klausli kasutuselevõtu tingisid majanduslikud põhjused. Läänemere idakalda iseseisvunud riigid – lisaks Balti riikidele ka Soome – olid olnud Venemaa majandusruumi osad ja nad soovisid senise harjumuspärase kaubanduskeskkonna kadumist asendada ning kompenseerida regionaalsete kaubandussoodustustega. Majandusliku lähenemise otsimine oli üks osa üleminekuprotsessist, mis leidis aset pärast Balti riikide iseseisvumist ja toetas samas ka poliitilist lähenemist.

Käesolev kirjutis püüab vastata küsimusele, milline tähtsus oli Balti klauslil Soome välis- ja väliskaubanduspoliitikas. Soomet hõlmava Balti koostöö kõrgaastail – 1918–1922 – olid Soome poliitikud ja kaubandusekspertid Balti klausli põhimõtete väljatöötamisel ning ellurakendamisel sama aktiivsed kui nende kolleegid Balti riikides. Soome soovis Balti klausli põhimõtteid kasutades kindlustada endale Balti riikides viimastega võrdsed kaubandussoodustusi, samas tolliunioonist hoidudes. Nii võimegi esitada küsimuse Balti klausli algupära kohta ja väita, et klausel kui üks keskne põhimõte Eesti ning Läti maailmasõdadevahelises väliskaubanduspoliitikas oli paljuski pärit just Soomest.

Uurimus tugineb Eesti Riigiarhiivi ja Soome välisministeeriumi arhiivi materjalidele. Autori tulevane doktoriväitekiri käsitleb Soome-Eesti maailmasõdadevahelisi majandussuhteid.